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ENHANCING THE INTEGRATED FRAMEWORK: A NEW APPROACH

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## EXECUTIVE SUMMARY

**1. Background.** The Development Committee recently “endorsed the proposal for an enhanced Integrated Framework for Trade Related Technical Assistance, including expanding its resources and scope and making it more effective”. Following up on this recommendation, a Task Force composed of representatives of the Integrated Framework Donor Group and Least Developed countries has been established with a mandate to make proposals to the Integrated Framework Working Group and Steering Committee on aid for trade and the enhancement of the Integrated Framework.

**2. A New Fund.** This paper outlines a new approach towards an enhanced Integrated Framework. It proposes the establishment of a new fund for trade related capacity building in developing countries, (the ‘World Trade Fund’) that will address LDC requirements but also provide assistance to other needy countries.

**3. The objective** of the new World Trade Fund would be to promote the more effective integration of developing countries in the world trading system through the provision of predictable, reliable and additional technical and related financial assistance. An initial Fund of \$300-500 million for five years is proposed with a review in the fourth year to determine, if and by how much the Fund would be replenished.

**4. Scope of Activities.** The WTF would support strengthened institutional capacity in: (a) trade policy and regulation, design and implementation; (b) trade support services; (c) trade facilitation; (d) trade adjustment. Funding in these areas would be provided for training and human resource development, diagnostic studies, expert advice, and software but also for related hardware and some limited construction.

**5. Beneficiaries.** WTF beneficiaries would include LDCs as well as other low income countries, and vulnerable small island economies. To safeguard LDC interests two separate windows are proposed: one for LDCs, and a separate one for non-LDCs. The latter may be set up in two different ways: either it could be designed to include developing countries based on eligibility criteria (e.g. per capita income, size); or it could be open in principle to funding requests from any developing country but managed under guidelines which give priority to funding assistance requests from low income and other vulnerable and needy countries.

**6. Governance.** The proposed WTF would have a three tiered governance structure, composed of a ‘Governing Body’, a ‘Program Board’ and a Secretariat. The ‘Governing Body’ would be a political body with representation from governments, of donors and recipients who should take ultimately responsibility for the activities of the WTF. The main functions of the ‘Governing Body’ would be to review the overall policies and programs of the WTF, approve changes in its functions as well as approve any new replenishment. The Program Board would be composed of a subset of the overall membership as well as representatives from the six implementing agencies, (ITC, IMF, UNCTAD, UNDP, World Bank, WTO) as observers. The main functions of the Board would be to: (a) review and approve the work program submitted to it by the Secretariat;

(b) establish operational strategies for the WTF, such as directives and criteria for project selection and execution; (c) ensure that WTF policies are pursued and that projects and programs are monitored and evaluated; (d) direct the utilization of funds, review the availability of WTF resources and seek to mobilize additional resources as necessary; (e) review and approve the administrative budget of the WTF. The main functions of the Secretariat would be to help identify and, in collaboration with national authorities, prepare projects for funding by the WTF; monitor and evaluate project implementation; disseminate best practices; and undertake the daily operations of the WTF. The Secretariat would be housed in one of the six implementing agencies for administrative purposes, salaries, pensions etc. Given the desire to strengthen local ownership and participation, an agency with local representation in developing countries as well as a wide ranging mandate in trade, such as the UNDP or the World Bank would be preferred.

**7. Local Presence.** The WTF would need to strengthen its local presence in developing countries and create a more direct and efficient link between the action plans from diagnostic studies and the funding of projects. Action plans need to become more focused and prioritized.

**8. Mainstreaming** trade in developing country programs and strategies can be promoted by the establishment of national ‘steering committees’; early involvement of the Ministry of Finance as well representatives of the private sector that stand to benefit from proposed programs; and the establishment of a focal point, ‘a champion’ for trade, possibly located in a visible high level position, not identified with an individual Ministry. The precise structure would have to vary by country, and one should avoid the temptation of using a ‘blueprint’ that applies to all. Mainstreaming also depends on the international institutions most responsible in assisting countries with this process, namely the IMF and the World Bank, as well as the UNDP. Stronger collaboration among these agencies especially at the local level is especially important.

**9. Link to the WTO.** There is a need for greater policy coherence in addressing developing country concerns arising from the WTO negotiating process with the allocation of aid resources so that developing countries will be better able to meet commitments in WTO’s rules based system. One possible approach, which could be utilized, in the first instance in connection with the trade facilitation negotiations, would be to develop procedures under which developing countries notify the WTO Secretariat and the Fund, of TA requirements to meet specific obligations under the future agreement. The WTF, in collaboration with the governments would then develop specific projects to address these problems. It is also important to develop within the WTO additional surveillance of developing country institutional capabilities as well as of developed country assistance efforts to provide trade related assistance. One way of doing this is through an expanded role of the Trade Policy Review Mechanism.

## ENHANCING THE INTEGRATED FRAMEWORK: A NEW APPROACH

### I. INTRODUCTION

Institutional weaknesses and other supply side constraints play a major role in limiting the integration of developing countries in the world trading system. The relative importance of these constraints has risen in recent periods as developing countries have improved their market access and assumed additional obligations in new areas under WTO Agreements such as TRIPS, SPS and TBT.

Various bilateral and multilateral donors are providing trade related technical assistance. The original Integrated Framework for Trade Related Assistance for LDCs (IF) established in 1997 was primarily an effort to introduce coherence into the many, often uncoordinated and supply driven, donor programs rather than raise assistance levels. The revised IF (2001) focused on increasing coherence in a different way: to embed trade policy reform and trade related assistance into countries' overall development and assistance priorities, as reflected in their individual poverty reduction strategies (PRS).

Experience with aid for trade and the IF has generated valuable insights about how to make support for trade capacity building more effective. But it has also brought out the need for establishing a system that provides assistance in a more predictable and credible manner (Prowse, 2005); that additional resources will be required to meet developing country needs, including those that arise from new commitments in the Doha Round; and that the technical assistance needs of many low income, small island and other vulnerable economies which are not LDCs also deserve the attention of the international community.

Against this background, the Development Committee "endorsed the proposal for an enhanced Integrated Framework for Trade Related Technical Assistance, including expanding its resources and scope and making it more effective" (Development Committee, 2005a). Following up on this recommendation, a Task Force composed of representatives of the Integrated Framework Donor Group and Least Developed countries has been established with a mandate to make proposals to the Integrated Framework Working Group and Steering Committee on aid for trade and the enhancement of the Integrated Framework.

This paper outlines a new approach towards an enhanced Integrated Framework. It proposes the establishment of a new fund for trade related capacity building in developing countries, (the 'World Trade Fund') that will address LDC requirements but also provide assistance to other needy countries. The sections that follow discuss the scope of activities, the range of beneficiaries and the size of the proposed fund. Subsequent sections discuss governance issues, links to the WTO as well as how to integrate the Fund's activities into recipient country development strategies.

## II. THE NEED FOR A NEW FUND

The theoretical justification of aid for trade rests on the benefits that accrue to other countries (externalities) when one country takes actions that increase trade. All countries benefit when one country liberalizes (e.g. through a tariff reduction), or undertakes a trade related investment (e.g. that results in faster Customs clearance). Benefits are increased when action is undertaken concurrently by many countries, as in the current WTO negotiations, which can be expected to generate global public goods. However, the full benefits of reform or investment are not captured by the country itself, leading to potential underinvestment. The diagnostic studies undertaken for LDCs under the IF as well as other studies of developing countries' capacity to trade, show very large needs for investment in trade related capacity, including the capacity to design and implement trade reforms, the capacity to negotiate internationally, the capacity to provide services in support of international trade, the capacity to facilitate trade at border crossings etc. And these needs are not limited to the LDCs.

There are several additional reasons for setting up a global funding facility. On the donor side, it is useful to pool resources, especially among many smaller bilateral donors, for whom it makes little administrative sense to have separate programs. On the recipient side, it is also better to deal with one donor than with several. Low income developing countries with limited human resources face tremendous difficulties in coping with a multiplicity of donors, all with different reporting and monitoring requirements. Finally, a multilateral facility reduces the risk of biasing the aid provided to support donor trade interests (Lecomte, 2004).

There is ample precedent of separate Funds established by the international community to promote objectives which have obvious externalities and involve the provision of global public goods. The Global Environment Facility, the Global Fund for AIDS, Tuberculosis and Malaria, the Global Alliance for Vaccines and Immunization (GAVI) are well known examples.<sup>1</sup>

The existing Trust Fund that supports the IF is focused primarily on preparing diagnostic studies with only very small amounts devoted to addressing actual developing country needs for trade related technical assistance (TA). Moreover, the mechanisms the IF has established for linking to donor programs do not result in the provision of predictable, reliable and additional financing of trade related technical assistance activities. A new and enlarged Fund is much more likely to address developing country needs than attempting to 'fine tune' the mechanisms linking diagnoses to actual provision of support for capacity building through the existing IF. Towards this end, a recent study by the staff of the IMF and the World Bank, proposed the establishment of a Fund of \$200-400 million for an initial period of five years (Development Committee, 2005b)

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<sup>1</sup> The World Bank alone participates in 26 such global funds (World Bank, 2004).

### III. THE OBJECTIVE

The objective of the new World Trade Fund would be to promote the more effective integration of developing countries in the world trading system through the provision of technical and related financial assistance. An important sub-objective would be the strengthening of developing country institutions so that they can accede to the WTO and discharge more effectively their current and future obligations under the WTO agreements.

### IV. SCOPE OF ACTIVITIES

The original IF had identified six elements of trade related TA: (a) institution building to handle trade policy issues; (b) strengthening export supply capabilities, *inter alia* by 'removing bottlenecks to increased production of tradable goods and services, including through the development of infrastructure'; (c) strengthening trade support services; (d) strengthening trade facilitation capabilities; (e) training and human resource development in the above four areas; (f) strengthening the trade related regulatory and policy framework (WTO, 1997). The most recent proposals for an enhanced IF contained in the background paper prepared by the Fund and the Bank appear to endorse project activities of an enhanced IF in all of the above areas, except trade related infrastructure, where the Fund would be limited only to project preparation (Development Committee, 2005b).

Consistent with the above, the proposed new WTF would include financing in the six areas of the original IF except financing of major infrastructure activities. The WTF may provide some project preparation financing for such activities, but feasibility studies (which can be quite costly) and actual project implementation would be funded by the World Bank and the regional MDBs as well as bilateral donors, including the EU. It is important to emphasize however, that the WTF should be able to provide financing, not only for studies, expert advice, training, and software but also for some hardware such as e.g. computers and other information technology equipment needed, for example, for Customs modernization. Similarly, the WTF should be able to finance some limited construction, e.g. border crossings linked to trade facilitation activities.<sup>2</sup>

The WTF would continue to fund diagnostic studies. However, the studies undertaken under the IF, in attempting to focus on the links between trade and poverty alleviation, erred on the side of being too comprehensive in scope and their recommendations were neither properly prioritized nor ready to implement.<sup>3</sup> More flexible and targeted diagnostic studies would appear to be needed. Moreover, in the new Fund, the balance

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<sup>2</sup> The Inter American Development Bank (IADB) Multilateral Investment Fund (MIF) that has operated a similar trade related facility, limits 'specialized equipment' purchases to not exceed 30% of total funding, but prohibits vehicle purchases..

<sup>3</sup> The Malawi DTIS contained an action matrix of eleven pages including such as 'actions' as 'Implement a set of safety net programs to provide supplemental employment, improved food security, and transfers to the most vulnerable population groups. Pursuing this will require refinement of the poverty focus of public works, development of appropriate systems for targeting crop pack distribution etc' for which the 'Support Measures' recommended was technical assistance in design and implementation to 'various ministries, NGOs etc'

between diagnostic studies and other activities including project preparation and implementation would shift drastically: much more financing would be directed to the latter than to the former. Indeed, it could be argued that the WTF, in its initial period of operations, should give priority to making use of the findings of the existing DTIS to prepare projects that meet the already identified country needs.

An important question that needs to be addressed is whether the WTF would provide assistance related to developing country ‘adjustment’ to trade reforms and, if so, what kind. Several proposals for establishing facilities that would provide adjustment assistance to developing countries have been made (see e.g. Patel, 2005). On the other hand, the recent DC paper explicitly recommended against the use of IF resources for adjustment assistance, arguing developing country needs would be addressed by existing World Bank/Fund and other donor programs.

In addressing this issue one must distinguish among three kinds of adjustment: (a) balance of payments adjustment as a consequence of trade liberalization or preference erosion; (b) budgetary adjustment as a consequence of revenue loss due to trade liberalization; (c) private adjustment costs to laborers, farmers, or firms adversely affected by trade liberalization or preference erosion.<sup>4</sup> A case can be made that adjustment assistance to address balance of payments problems is already available under existing IMF facilities which may help countries to address balance of payments problems that derive from their own trade liberalization or those of others (the Trade Integration Mechanism).<sup>5</sup> Similarly, budgetary shortfalls deriving from tariff reductions can best be addressed in the context of the overall budgetary envelop faced by different countries—which is supposed to be an ongoing concern of the IFIs.<sup>6</sup> But there is no credible source of trade related assistance to address the third kind of adjustment: costs of dislocation primarily of labor and farmers as a consequence of increased imports or reduced exports. The size of these costs could be large, and affect the poor who can ill afford them because of the inadequacy of safety nets (Maur, 2005). The European Commission has just established a ‘Globalization Adjustment Fund’ to deal with redundancies, training, outplacement and relocation for workers affected by globalization. The WTF should be able to provide TA to help developing countries address the same problems. The WTF for example should be able to fund a training program a retraining program for people who lost their jobs due to an influx of imports just as it should be able to fund training for new export development.

Finally, there is the question of adequacy of existing mechanisms to address regional aid-for trade issues (e.g. regional transport corridors, standards, disease, or pest control

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<sup>4</sup> Note that private adjustment costs are likely to exceed social costs as trade reform may result in benefits that accrue, for example, to other workers or consumers that would have to be netted out; at the same time, adjustment needs are often attributed to imports, when the real cause is technological change.

<sup>5</sup> Only two countries have used this facility so far.

<sup>6</sup> Moreover, tariff reductions based on international negotiations are always phased in slowly over time and can be addressed by budgetary reforms that generate other sources of revenue. However, implementing tax reforms in low income developing countries takes a long time; thus placing a premium on the pace and sequencing of trade reforms that affect the revenue stream.

issues). This issue is the subject of a separate study requested by the DC from the World Bank and the IMF for consideration at its next meeting and is not considered here further.

In sum, the WTF, would be expected to carry on all the activities undertaken by the IF at present, including diagnostic studies but also project preparation, as well as a very much expanded program of technical assistance that would include capacity building, training, expert advice etc in a wide range of activities involving trade policy, customs and related trade facilitation, product development, and the regulatory environment. The scope of activities of the WTF would include technical assistance in all the areas of trade facilitation which are under consideration in the Doha Round discussions on trade facilitation and for which developing countries have stated they need technical assistance. The WTF would also finance some types of adjustment assistance, and possibly, some assistance related to regional issues.

## V. COUNTRY BENEFICIARIES

At present, the IF is limited to 49 LDC beneficiaries. This is to a large extent the result of the post Uruguay Round negotiating process in the WTO. The IF was originally established in response to a commitment made at the Singapore WTO Ministerial to do something to assist the LDCs, not as part of a reasoned analysis as to which developing countries need such assistance. Indeed, analyses of developing country trade institutions suggest that a large number of low income countries as well as other small island economies may well face institutional capacity constraints very similar to those of the LDCs. Similarly, developing country technical assistance requirements in trade facilitation are not limited to LDCs. Would it make sense to create an enhanced IF limited to LDCs while separate arrangements are made to fund requests for technical assistance to support developing country commitments under the trade facilitation agreement negotiated in the Doha Round?

Thus, it would appear desirable to expand the range of WTF beneficiaries beyond the LDCs to include additional countries, such as other low income countries (e.g. Kenya, Ghana) that are not on the LDC list, or small island economies. If the World Bank list of beneficiaries to IDA was to be used, to determine the per capita income cut off, this would include an additional eighteen countries mostly in Sub-Saharan Africa, and the CIS. But these would not include a number of small island economies (e.g. Dominica, St. Lucia) which are 'blend' countries. Adding the IDA countries plus the small island economies to the LDCs would give a list of roughly seventy countries with priority needs for trade related TA.

LDCs would naturally be very concerned that such an expansion of the list of beneficiaries would dilute the benefits to be derived from the new Fund. Other developing countries which are not low income or island economies may also object to the creation of a new 'list' or sub-group of developing countries or to being excluded

from the TA to be provided by the WTF.<sup>7</sup> One way out of this conundrum is to set up one Fund with two separate windows: one for LDCs, which would safeguard their access to funding and another one for other developing countries. The separate window for non-LDCs, may be set up in two different ways: either it could be designed to include developing countries based on eligibility criteria (e.g. per capita income, size); or it could be open in principle to funding requests from any developing country but managed under guidelines which would give priority to funding assistance requests from low income, and other vulnerable and needy countries. Under the latter option, high income developing countries which are already well integrated in the world economy may wish to voluntarily refrain from seeking assistance from the WTF.

## VI. SIZE OF THE WTF

The Development Committee paper recommended the establishment of a Fund which would have predictable and reliable financing. It suggested an indicative level of financing of the order of \$200-400 million for five years. This level was estimated on the basis of approximately 40 active clients, with individual programs varying depending on country circumstances and effectiveness of program implementation. The estimate was based in part on costing out of trade related projects proposed in a sample of recent DTIS and evidence from World Bank and IADB (Multilateral Investment Fund) trade facilitation projects which typically cost about \$10-15 million for the former and up to \$3 million for the latter. For example, the World Bank's Trade and Trade Facilitation Project in South East Europe (TTFSE) jointly financed with USAID cost approximately \$140 million for eight countries over three-four years, and involved some hardware procurement but only very limited amount of infrastructure.

Given the very limited experience with project financing under the existing IF program, it is very hard to estimate how much funding would be actually needed. A great deal will depend on how effectively the program is implemented, how quickly projects can be designed and implemented, how efficiently disbursements are made etc, which in part would depend on the governance structure of the Fund and its relationship to other programs. If one takes the DC estimate as a basis and increases the number of beneficiaries as well as adds the costs of administering the Fund, a range of \$300-500 million would seem more appropriate.

It is hard to envisage that the trade related technical assistance needs of developing countries or LDCs will end after five years or a similar time frame. However, it may be appropriate to set up the Fund with the expectation that it will have a finite duration unless it is renewed. This means that, besides ongoing monitoring of Fund activities, the overall functioning of the Fund should be reviewed in its totality after a period of time, say four years, in order to determine if and by how much the Fund may be replenished.

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<sup>7</sup> There are many precedents for establishing different groupings of developing countries for different purposes, especially in the provision of technical and financial assistance, but also in the WTO. See for e.g. the Agreement on Subsidies and Countervailing, and the Net Food Importing Countries.

With the level of funding proposed above, very little could be accomplished to increase export supply capacity in developing countries. Thus, continuation of other donor funding, including by the IFIs would be essential. Donors would need to contribute this through the PRS process. And the Fund management will have to develop and explore a variety of co-financing opportunities. In particular, the Fund, if established, will need to collaborate closely with the EU which has allocated significant resources for trade related activities as part of its support for EPAs in many of the same countries in which the Fund would be operating.

## VII. GOVERNANCE

The governance structure of the existing IF is weak and inappropriate for the WTF. There is diffusion of responsibilities among the various international agencies; there is no clear decision making process; there is no process of monitoring, on-going evaluation or dissemination of best practices; there have been difficulties and delays both in the project development and in the disbursements from the Trust Fund—although the situation appears to be improving; and the IF Steering Group appears to be little more than a forum in which donors present their programs of trade related assistance.

The proposed WTF would have a three tiered governance structure, composed of a ‘Governing Body’, a ‘Program Board’ and a Secretariat. A number of committees and other bodies may also be established to support the operations of the Fund. The main functions and composition of these bodies are outlined below.

At the top of the governance of the WTF should be a political body with representation from governments, i.e. donors and recipients, which ensures adequate representation of developing country and LDC interests. The countries should be the ones that take ultimately responsibility for the activities of the WTF. The main functions of the ‘Governing Body’ would be to review the overall policies and programs of the WTF, approve changes in the overall functions of the WTF as well as approve any new replenishment. This body could meet infrequently—may be once a year or even every two years.

A second tier body should be established, let us call it the ‘Program Board’ which has the following functions:

- Review and approve the work program submitted to it by the Secretariat; this would not involve detailed review of each individual project, but rather the program as a whole, (though, in exceptional occasions, a member of the Board could request a detailed review of a particular project);
- Ensure that WTF policies are pursued and that projects and programs are monitored and evaluated;
- Direct the utilization of funds, review the availability of WTF resources and seek to mobilize additional resources as necessary;
- Establish operational strategies for the WTF including directives and criteria for project selection and execution;

- Review and approve the administrative budget of the IF.

The Program Board should be composed of a subset of the overall membership that includes donors and recipients as well as representatives from the six agencies (let us call them the ‘implementing agencies’, ITC, IMF, UNCTAD, UNDP, the World Bank, WTO) as observers. It should meet a couple of times a year to review and approve the program to be funded, the work plan of the Secretariat, the administrative budget etc.

It may also be useful to set up a separate committee of the implementing agencies to review and co-ordinate their work plans. This Committee should include also representatives from other agencies involved in trade facilitation work, such as the World Customs Organization, the IADB and others.<sup>8</sup>The main function of this Committee would be to help improve program co-ordination among the agencies. However, it could also perform advisory functions to the Secretariat or to the Board

Finally there has to be a secretariat, with a suitable management structure, e.g. there must be a ‘Director’, probably chosen by the ‘Program Board’. The main functions of the secretariat should be to help identify and prepare projects for funding by the WTF; to monitor and evaluate project implementation; disseminate best practices; and to undertake the daily operations of the WTF. The Secretariat may do less of its own project preparation and may use primarily outside consultants and advisors for this purpose. Also, how much of this activity is done centrally and how much by local consultants and staff would depend on the nature of the project. Finally, there may be options as to how much of the quality control in project design is done by the Secretariat and how much outside expertise is used in the process. GAVI for example has a panel of independent experts which passes on the merits of individual project proposals.

The Secretariat would have to be housed in one of the six implementing agencies for administrative purposes, salaries, pensions etc. Given the nature of the projects and the desire to strengthen local ownership and participation, an agency with a wide ranging mandate as well as local representation would be preferable. Of the six implementing agencies, UNCTAD, UNDP, World Bank, and WTO have wide ranging mandates in trade; but only two, UNDP and the World Bank have local representation in developing countries.

Locating the WTF either in the World Bank or the UN has advantages and disadvantages. Locating the WTF in the World Bank would have the advantage of providing closer links to trade related infrastructure projects financed by the Bank as well as to the PRS process (see below). But developing countries have often expressed concerns that the World Bank (in collaboration with the IMF) will use trade related assistance as a means of promoting unwanted trade liberalization. The World Bank has indicated that it is not seeking to house an enhanced IF, but would perform whatever functions the international community assigns to it. Whatever role is assigned to the Bank, the international architecture on aid for trade would need to ensure that the very

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<sup>8</sup> Both the GEF and UNAIDS have such a committee structure.

substantial expertise the Bank has developed in diagnostic analysis and research on international trade is fully utilized by the new Fund.

UNDP management of the IF Trust Fund has been problematic but improving. And it is unclear whether UN administrative practices and procedures are more or less burdensome than those of the World Bank. Locating the Fund in the UNDP would require very substantial strengthening of UNDP staff at headquarters, as well as the system of UN Resident Coordinators (UNRESCO) since they have very little trade related expertise at present. The new UNDP leadership, which is strongly committed to the IF, would have to make strengthening of UNDP resources in trade related activities a key priority.<sup>9</sup>

There is at least one variant of the above structure which would involve a somewhat less 'hands on' approach in project design, preparation and implementation, and which would require less secretariat resources. The model of the IADB MIF which has a 'cluster' of projects on 'Facilitation of Trade and Investment' (22 projects at present, in different stages of approval and implementation) may be used to provide a somewhat 'lighter' governance structure. Under this model, there are guidelines and criteria for project eligibility but there would be less secretariat involvement in project preparation and relatively little monitoring. 'National' procedures could be used for procurement under the projects (as opposed to international). Using this model for implementation of the WTF runs a number of risks, however:

- 'Quality at entry' is often an important determinant of project success; this in turn depends very much on institutional capacity to do project design—which is very weak in many LDCs;
- Implementation is quicker when 'national' procedures in procurement, fiduciary oversight, etc. and should be used by the WTF where possible; but these procedures require a strong institutional capacity, not present in many developing countries, and without which, there are serious risks of waste.

There are ways of streamlining project approval for activities which are essentially similar across many countries. Unfortunately, trade related projects are difficult to standardize. Still, some efforts in that direction could be utilized by the WTF. The World Bank is using a 'horizontal' Adaptable Program Loan (APL) to help strengthen the capacity of statistical services in a number of countries. The IADB MIF has a 'Lines of Activity' initiative for the same purpose. Similar approaches could be used by the WTF, for example, to help strengthen developing country institutions dealing with standards.

The enhanced IF would need to strengthen its local presence and create a more direct and efficient link between the Action Plans from the diagnostic studies and the funding of projects. As noted earlier, the Action plans need to become more focused. Project preparation funds should be made available to the Secretariat and the local authorities

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<sup>9</sup> It may be possible to split the functions and locate the administration of the Fund in a different agency than the Secretariat; but this would unnecessarily complicate the structure. Whichever agency houses the Fund and the Secretariat should not be expected to charge separate fees for the administration of the Fund (as is now done by the UNDP) as it should be perceived to be part of the its core business.

which would then submit projects for approval by the Program Board. The local authorities will also have responsibility for developing ideas for projects that would be included for consideration in the PRS process. There should be more intensive co-ordination among donors, at the local level, in particular among those with local presence, including through the establishment of a 'lead' donor agency (bilateral or multilateral) that could also take responsibility for supporting the program, through co-financing, if necessary.

## VIII. COUNTRY OWNERSHIP: TRADE IN COUNTRY STRATEGIES

Experience in the implementation of the IF, has identified a number of problems that have been highlighted in various recent evaluations (WTO, 2003; Liebrechts and Wijmenga, 2004; USAID, 2005). While there have been some success stories (e.g. Cambodia), in many others the IF has not been effective. The WTF would need to address these problems in order for future efforts to yield results and for trade related assistance to be given the proper priority in poverty reduction strategies. The following are some of the most important problems that have been identified:

- There are weaknesses in developing country ownership, partly as a result of the absence of national leadership that can promote the importance of trade;
- Trade related activities require the co-ordination among many agencies; trade ministries, usually the focal points for assistance under the IF, are weak in the councils of government and key government ministries, in particular the Ministry of Finance, have not been involved early in the process;
- There has been a lack of synchronization between the diagnostic studies and the PRS process;
- The PRS official process has been dominated by the social ministries and the Ministry of Finance which see it as a means of obtaining significant aid financing; IF funding has been far more modest than country expectations;
- The PRS consultative process has been dominated by non-profit NGOs, whose focus has been social services; while the rest of the private sector has not been actively involved.

Some of these problems appear to be improving, e.g. there is better integration with the PRSs. Some may be addressed by increased funding, e.g. for project preparation under a new Fund. Others may be improved through an improved governance structure. Still others, e.g. strengthening of ownership and trade ministries, will take time and may itself depend upon the availability of additional resources for trade capacity building.

Mainstreaming trade in developing country programs, depends on two sets of actions: by the country itself and by the international institutions most responsible in assisting countries with this process, namely the IMF and the World Bank, as well as the UNDP.

On the country side, several steps are needed: the establishment of a national 'steering committee'; early involvement of the Ministry of Finance as well representatives of the private sector that stand to benefit from proposed programs; the establishment of a focal point, 'a champion' for trade, possibly located in a visible high level position, not

identified with an individual Ministry, can all help. (See USAID, 2005; WTO, 2003). The precise structure would have to vary by country, and one should avoid the temptation of using a 'blueprint' that applies to all. And while a lot of the above is already understood, effective implementation will take time, as the strengthening of the local trade institutions is a long term process, and should be one of the main objectives of the assistance programs.

In the IMF and the World Bank, the key to raising the profile of trade and trade related issues in country programs depends very much on the awareness and involvement of the Country Departments ( in the IMF) and the 'Operations' complex in the World Bank. In both cases and especially the World Bank, which undertakes a great number of trade related activities, it is necessary for 'Operations' to be familiar with the opportunities that the WTF offers, how it can be used to develop activities and how projects developed by the Fund, can be linked to other activities that are under consideration.

Finally, the question needs to be addressed of how to integrate Fund facilities within overall country strategies for countries which do not have formal PRS strategies. In these cases, the UNDP would have to play a key role in working with developing country governments to integrate the Fund activities in country indicative plans, including in the national MDG plans that, according to the recent UN Summit Declaration, will be prepared by 2006.

## IX. LINKS TO THE WTO

In order to maintain a link to the WTO, the Program Board should report periodically to the Committee on Trade and Development and, through it, to the WTO General Council, on WTF activities in support of strengthening developing country capacity to trade. But more than this formal link is needed. The ongoing Doha Round discussions on trade facilitation are based on the premise, agreed in the WTO modalities negotiations in July 2004, that technical assistance and support for capacity building, including infrastructure development will be addressed by developed country members, failing which implementation obligations of developing countries will be waived (WTO, 2004). More generally, there is a need for greater policy coherence in addressing developing country concerns arising from the WTO negotiating process with the allocation of aid resources so that developing countries will be better able to meet commitments in WTO's rules based system (Prowse, 2005). This is a very difficult issue which presents many challenges that require new and innovative approaches for the WTF and the overall aid for trade architecture.

One possible approach, which could be utilized, in the first instance, in connection with the trade facilitation negotiations, would be to develop procedures under which developing countries notify the WTO Secretariat and the Fund, of TA requirements to meet specific obligations under the future agreement. The WTF, in collaboration with the governments would then develop specific projects to address these problems. Progress on these projects would be monitored and results assessed based on specific indicators. Upon the successful completion of the projects a judgment would have to be made,

perhaps based on the findings and recommendations of an independent panel of experts, as to whether a country is 'able' to take on certain commitments. This is not an easy task, as the criteria for judging 'institutional' adequacy are not often clear cut, the process may be easily politicized, and countries may find it difficult to agree to take on additional commitments, even after TA projects have been successfully completed.

Beyond these links, it may be useful to develop, within the WTO, additional surveillance of developing country institutional capabilities as well as of developed country assistance efforts to provide trade related assistance. One way of doing this is through an expanded role of the Trade Policy Review Mechanism. The TPRs could be expanded in scope to contain reviews both of developing country trade related assistance requirements and developed country trade related assistance programs. Such an expansion of the TPR scope would also require closer involvement in TPR preparation and discussion of other government agencies and institutions in addition to Ministries of Trade, both in developed and developing countries.

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